Consolidated Financial Statements
With
Independent Auditors' Report

JUNE 30, 2012

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Independent Auditors' Report

Board of Directors The Lutheran Church—Missouri Synod St. Louis, Missouri

We have audited the accompanying consolidated statements of financial position of The Lutheran Church—Missouri Synod (the "Synod") and subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of activities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Synod's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Synod's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Synod's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Lutheran Church—Missouri Synod and subsidiaries as of June 30, 2012 and 2011, and changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Brown Smith Wallace, L. L.C.

St. Louis, Missouri October 22, 2012

Consolidated Statements of Financial Position

June 30, 2012 and 2011

		usands
ACCETC	2012	2011
ASSETS Coch and each agriculants	\$ 27,403	¢ 20.279
Cash and cash equivalents Accrued interest and dividends receivable	\$ 27,403 1,274	\$ 39,378 984
	20,178	23,997
Contributions receivable – net (<i>Note F</i>)	20,178	23,997
Notes and accounts receivable: From church workers	556	655
		655
From Synod-related entities From others	474	3,061
Total notes and accounts receivable	22,956 23,986	23,422 27,138
	54,205	56,559
Land, buildings, and equipment – net of depreciation (<i>Note G</i>)	69,242	
Investments (Note C)		48,852
Funds held in custody by others (<i>Note H</i>)	13,789	12,632
Prepaid expenses – insurance	257	1,910
Prepaid expenses – Convention and Youth Gathering	823	1 670
Other assets	1,593	1,679
TOTAL ASSETS	\$ 212,750	\$ 213,129
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 12,033	\$ 10,380
Support payable to related entities (Note I)	7,255	8,714
Funds on deposit by related entities	2,630	4,170
Notes payable ($Note J$)	581	489
Deferred revenue:		
Insurance	231	2,586
Convention and Youth Gathering	13	-
Tuition and fees	27,400	26,972
Other (Note T)	15,000	16,500
Total deferred revenue	42,644	46,058
Advance payments on third-party billings	9,981	10,982
Other liabilities	3,628	4,279
Funds held in custody for others	1,122	940
Total liabilities	79,874	86,012
Net assets		
Unrestricted:		
Undesignated	10,485	2,977
Board Designated (<i>Note K</i>)	4,382	3,792
Net investment in land, buildings and equipment	53,624	56,070
Total unrestricted	68,491	62,839
Temporarily restricted (<i>Note L</i>)	35,553	35,410
Permanently restricted (<i>Note M</i>)	28,832	28,868
Total net assets	132,876	127,117
TOTAL LIABILITIES AND NET ASSETS	\$ 212,750	\$ 213,129

Consolidated Statement of Activities

Year Ended June 30, 2012

(In Thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues, and gains				
Support:				
District pledge	\$ -	\$ 15,722	\$ -	\$ 15,722
Gifts and grants	619	28,261	(189)	28,691
Bequests	1,949	4,870	-	6,819
Volunteer services (<i>Note N</i>)		2,221	-	2,221
Total support	2,568	51,074	(189)	53,453
Revenues:				
Investment and trust income	1,223	1,167	1	2,391
Sales and services:				
Convention and Youth Gathering	-	_	-	-
KFUO-FM	-	-	-	-
Other programs and services	5,618	-	-	5,618
Services to other entities	1,609	_	-	1,609
Concordia Plan Services	19,709	_	-	19,709
LCMS Holdings Limited-tuition and other	40,692	-	-	40,692
Total revenues	68,851	1,167	1	70,019
Net realized & unrealized gain/(loss) on investments	(370)	(313)	8	(675)
Change in value of split-interest agreements	-	(110)	144	34
Gain on sale of assets (Note T)	1,504	-		1,504
Net assets released from restrictions (Note L)	51,675	(51,675)	-	-,- 3 .
Total support, revenues, and gains	124,228	143	(36)	124,335

Consolidated Statement of Activities - Continued

Year Ended June 30, 2012

(In Thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				_
Programs:				
Missions	23,027	-	-	23,027
Fan into Flame	563	-	-	563
Pastoral Education	3,416	-	-	3,416
University Education	4,061	-	-	4,061
District and Congregational Services	1,722	-	-	1,722
Youth Gathering	-	-	-	-
Communications	1,985	-	-	1,985
Human Care	11,169	-	-	11,169
Black Ministry	316	-	-	316
Total program services	46,259	-	-	46,259
KFUO	1,443	-	-	1,443
Convention initiatives and constitutional officers:				
Supplemental retirement to veterans of the cross (<i>Note P</i>)	504	-	-	504
Ecclesiastical services and commissions	1,964	-	-	1,964
Synodical constitutional officers and administration	3,721	-	-	3,721
Total convention initiatives and constitutional				
officers	6,189	-	-	6,189
General and administrative	9,949	-	-	9,949
Concordia Plan Services	18,735	-	-	18,735
LCMS Holdings Limited	37,128	-	-	37,128
Total expenses	119,703	-	-	119,703
Foreign currency translation (<i>Note B</i>)	1,127	-	-	1,127
Change in net assets	5,652	143	(36)	5,759
Net assets at beginning of year	62,839	35,410	28,868	127,117
Net assets at end of year	\$ 68,491	\$ 35,553	\$ 28,832	\$ 132,876

Consolidated Statement of Activities

Year Ended June 30, 2011

(In Thousands) Support, revenues, and gains	Uni	restricted		mporarily estricted		manently stricted		Total
Support:	Φ		Φ	16.026	Ф		Φ	16.026
District pledge	\$	-	\$	16,036	\$	-	\$	16,036
Gifts and grants		459		31,269		2,845		34,573
Bequests		2,989		3,520		-		6,509
Volunteer services (Note N)		-		1,851		-		1,851
Total support		3,448		52,676		2,845		58,969
Revenues:								
Investment and trust income		1,120		697		-		1,817
Sales and services:								
Convention and Youth Gathering		8,828		-		-		8,828
KFUO-FM		15		-		-		15
Other programs and services		6,360		-		-		6,360
Services to other entities		1,637		-		-		1,637
Concordia Plan Services		15,731		_		_		15,731
LCMS Holdings Limited-tuition and other		36,836		-		-		36,836
Total revenues		70,527		697		-		71,224
Net realized & unrealized gain on investments		308		1,972		75		2,355
Change in value of split-interest agreements		_		127		671		798
Gain on sale of assets (<i>Note T</i>)		1,501		-		-		1,501
Net assets released from restrictions (Note L)		58,603		(58,603)		-		-
Total support, revenues, and gains		134,387		(3,131)		3,591		134,847

Consolidated Statement of Activities - Continued

Year Ended June 30, 2011

(In Thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Program boards:				
Missions	23,390	-	-	23,390
Fan into Flame	1,509	-	-	1,509
Pastoral Education	3,509	-	-	3,509
University Education	4,852	-	-	4,852
District and Congregational Services	1,826	-	-	1,826
Youth Gathering	7,016	-	-	7,016
Communications	1,916	-	-	1,916
Human Care	12,279	-	-	12,279
Black Ministry	657	-	=	657
Total program services	56,954	-	-	56,954
KFUO	2,162	-	-	2,162
Convention initiatives and constitutional officers:				
Supplemental retirement to veterans of the cross (Note P)	663	-	-	663
Ecclesiastical services and commissions	2,412	-	-	2,412
Synodical constitutional officers and administration	5,618	-	-	5,618
Total convention initiatives and constitutional				_
officers	8,693	-	-	8,693
General and administrative	11,047	-	-	11,047
Concordia Plan Services	14,819	-	-	14,819
LCMS Holdings Limited	29,580	-	-	29,580
Total expenses	123,255	-	=	123,255
Foreign currency translation (Note B)	2,580	-	=	2,580
Change in net assets	13,712	(3,131)	3,591	14,172
Net assets at beginning of year	49,127	38,541	25,277	112,945
Net assets at end of year	\$ 62,839	\$ 35,410	\$ 28,868	\$ 127,117

Consolidated Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	In Tho. 2012	usands 2011
Cash flows from operating activities:		-011
Change in net assets	\$ 5,759	\$ 14,172
Adjustments to reconcile change in net assets to net cash provided		
by operating activities:		
Depreciation and amortization	5,628	5,319
Allowance adjustment for uncollectible pledges	1,630	514
Loss/(gain) on investments	607	(2,279)
Gain on value of split-interest agreements	(297)	(798)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(290)	(761)
Decrease in contributions receivable	2,079	5,081
Decrease (increase) in accounts receivable	2,856	(21,198)
Decrease in prepaid expenses and other assets	917	4,415
Increase in funds held in custody by others	(750)	(1,612)
Increase (decrease) in accounts payable and accrued expenses	1,819	(1,781)
(Decrease) increase in support payable to related entities	(1,459)	9
(Decrease) increase in deferred revenues and other liabilities	(4,642)	11,184
Increase in advance payments for third-party billings	(1,001)	(975)
Increase (decrease) in funds held in custody for others	182	(30)
Contributions restricted for long-term investment	189	(2,845)
Net cash provided by operating activities	13,227	8,415
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(2,470)	(2,292)
Disposal of property, plant, and equipment	12	35
Purchases of investments	(21,239)	(22,893)
Proceeds from sale of investments	766	308
Additions to notes receivable	(94)	(177)
Principal collections on notes receivable	203	229
Net cash used in investing activities	(22,822)	(24,790)
Cash flows from financing activities:		
Decrease in funds on deposit by related entities	(1,540)	(891)
Increase in notes payable	418	402
Payments on notes payable	(326)	(324)
Contributions restricted for long-term investment	(189)	2,845
Net cash (used in) provided by financing activities	(1,637)	2,032
Effect of exchange rate changes	(743)	(1,437)
Net decrease in cash and cash equivalents	(11,975)	(15,780)
Cash and cash equivalents at beginning of year	39,378	55,158
Cash and cash equivalents at end of year	\$ 27,403	\$ 39,378
Supplemental cash flow data:		
Interest paid	\$ 152	\$ 108
Taxes paid	\$ 2,351	\$ 2,564
L	+ 2,001	÷ 2,501

Notes to Consolidated Financial Statements

June 30, 2012

Note A - Summary of Organization

The Lutheran Church—Missouri Synod (the "Synod"), a not-for-profit organization, was organized in the state of Missouri in 1847 for the conservation and promotion of the unity of the true faith, strengthening congregations and their members in giving bold witness by word and deed, recruiting and training professional church workers, and extending the gospel witness into all the world. The Synod was incorporated as a not-for-profit corporation in 1894. The present name was officially adopted in 1947.

The Board of Directors is the legal representative of the Synod. It is the custodian of all property of the Synod, directly or by its delegation of such authority to an agency of the Synod. It exercises supervision over all property and business affairs of the Synod except in those areas where authority has been delegated to another agency of the Synod, or where through the adoption of bylaws or other convention action specific areas of responsibility have been assigned to separate boards or trust entities, and as to those, the Board of Directors has general oversight responsibility.

The July 2010 Synodical Convention resolved to restructure corporate Synod, replacing all program boards with two newly formed boards—the Board for International Mission and the Board for National Mission—and categorizing all other departments under one of three areas—Ecclesiastical Services and Commissions, Synodical Constitutional Officers and Administration, or General and Administrative. To provide adequate time to put the new structure in place, these changes do not become effective for financial reporting purposes until July 1, 2012. The 2012 and 2011 financial statements are presented under the same structure that existed before the reorganization which included:

Missions – Exists to strengthen congregations and their members in giving bold witness by word and deed and extending gospel witness to all the world.

Pastoral Education – Coordinates pre-seminary education programs, seminary education programs, seminary education, and post-seminary education, and provided advocacy for pastoral education within the church.

University Education – Reflects the support given by the Synod to the Concordia University System, Inc. (CUS) and all of the Synod's colleges and universities to assist in providing for the education of commissioned ministers, other professional church workers for the Synod, and others desiring a Christian Lutheran liberal arts education.

District and Congregational Services – Exists to enable vision and outcome development, to prepare and revise policies responsive to both current and anticipated situations, and to initiate action in order to meet the changing needs of districts and congregations. A major activity of the District and Congregational Services department is the triennial National Youth Gathering.

Notes to Consolidated Financial Statements – Continued

June 30, 2012

Note A - Summary of Organization (Continued)

Communications – Exists to interpret, subject to the approval of the applicable officers and boards, the Synod's purpose and programs to its members and to promote an increased understanding on the part of the Church's publics of the mission of the Synod.

Human Care – Exists to provide opportunities through which the members of the Synod may express their Christian concern, love, and compassion in meeting human needs, including support for veterans of the cross.

Black Ministry – Exists to serve as an advocate on behalf of black ministry in the congregations and agencies of the Synod.

KFUO radio is managed by the President's Office. Convention initiatives and constitutional officers are functions directed by the Synod in convention which include various ecclesiastical services and commissions, and the Synod constitutional officers. General and administrative expenses include services to other entities which represent expenses incurred by the Synod for the benefit of the Synod and other related entities, which are billed to those entities. Such services include general and administrative functions of the Synod including accounting, audit, legal, insurance, research, electronic media, computer operations, general services, and human resources.

The Synod relies on donations from its over 6,000 congregations as well as donations from individuals and grants from agencies for the majority of its support. These donations and grants are subject to fluctuations in the economic status of the area in which the congregations, individuals, and agencies are located.

Other Related Organizations

The Synod in convention has authorized the formation of 35 districts as separate legal entities to achieve its objectives and carry on its activities. It has also formed, as separate not-for-profit corporations, 12 educational institutions, CUS, a publishing house, a foundation, church extension programs, and its archives. The accompanying consolidated financial statements represent the operations of the Synod national offices, including Synodical administration over which the Board of Directors of the Synod has direct responsibility and control, and do not include the operations of the districts, universities, seminaries, CUS, Concordia Publishing House (CPH), The Lutheran Church—Missouri Synod Foundation (Foundation), Lutheran Church Extension Fund (LCEF), and Concordia Historical Institute (CHI), for which the Board of Directors of the Synod has oversight responsibilities as further explained in Note B, "Summary of Significant Accounting Policies."

Notes to Consolidated Financial Statements - Continued

June 30, 2012

Note A - Summary of Organization (Continued)

The Board of Directors allocates available funds to program boards, commissions, and departments of the corporate Synod and holds them responsible.

Concordia Plan Services

The Board of Directors of the Synod approved the formation of a subsidiary corporation to administer the benefit plans of the Synod. The Synod has both an economic interest and control of Concordia Plan Services, which began operations effective July 1, 2005.

Concordia Plan Services (CPS), a not-for-profit organization, was organized in the state of Missouri in 2005 for the administration of the pension, retirement, health and other benefit plans established by the Lutheran Church—Missouri Synod in accordance with the terms of such plans. CPS has as its sole member the Synod.

The Synod has all powers which can be vested in members of a corporation under the Missouri Nonprofit Corporation Act. Subject to limitations, the business and property of CPS is managed and controlled by a Board of Directors. The duly appointed and serving members of the Board of Trustees of the Concordia Plans of the Lutheran Church—Missouri Synod also shall serve as the Board of Directors of CPS, provided, however, that the Chief Financial Officer of the Synod shall serve as a nonvoting member.

The Synod and CPS are organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and have received a determination letter from the Internal Revenue Service stating that it is exempt from federal income taxes on income from related exempt activities under Code Section 501(a).

LCMS National Housing Support Corporation

A wholly owned subsidiary corporation of the Synod, the LCMS National Housing Support Corporation was formed by the Board of Directors of the Synod for the primary purpose of furthering the housing ministry of the Synod. The Synod maintains control over the Corporation, having delegated its powers to be exercised by the Board of Directors for the LCMS National Housing Support Corporation.

The LCMS National Housing Support Corporation is a not-for-profit organization, organized in the state of Missouri in 2004 for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Specifically, the Corporation was organized to combat poverty and community deterioration. It was included and is covered under the Synod's group exempt ruling, issued by the Internal Revenue Service in January, 1965. It is therefore exempt from federal income taxes on income from related exempt activities under Code Section 501(a).

Notes to Consolidated Financial Statements - Continued

June 30, 2012

Note A - Summary of Organization (Continued)

LCMS Holdings, Ltd. Hong Kong

A wholly owned subsidiary corporation of the Synod, the LCMS Holdings, Ltd. Hong Kong (LCMS Holdings, Ltd.) is a limited liability company incorporated in Hong Kong. Its principal activity is investment holding. The principal activity of its subsidiaries, Concordia International School Shanghai (CISS) and Concordia International School Hanoi (CISH), is operating a school for expatriate children in Shanghai and Hanoi respectively. CISS is not permitted to pay any dividend or other form of remuneration to the parent company.

Note B - Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared using the accrual basis of accounting. Additionally, the financial statement presentation follows the requirements of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). Under these standards, the Synod is required to report information regarding its financial position and activities according to three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Principles of Consolidation

The consolidated financial statements include the accounts of the Lutheran Church—Missouri Synod, the LCMS National Housing Support Corporation, Concordia Plan Services, and LCMS Holdings, Ltd. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The presentation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

For consolidated financial statement purposes, the Synod considers currency, demand deposits, and liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. At June 30, 2012 and 2011, cash and cash equivalents include deposits held at LCEF. At times, bank deposits may be in excess of federally insured limits.

Notes to Consolidated Financial Statements - Continued

June 30, 2012

Note B - Summary of Significant Accounting Policies (Continued)

Investments and Recognition of Gains and Losses

The Synod carries investments at fair value. Gains and losses, both realized and unrealized, are recognized in the statements of activities and changes in net assets. The fair values for debt securities and marketable equity securities are based on quoted market prices.

All gains and losses are reflected in the statements of activities and changes in net assets as increases or decreases in unrestricted or temporarily restricted net assets as appropriate based on donor restrictions.

Split-Interest Agreements

Split-interest agreements consist primarily of irrevocable charitable remainder trusts and charitable gift annuities. The assets associated with such agreements are held by the Foundation. Contributions are recognized as either pledges receivable or funds held in custody by others and gift income when the Synod is notified of the agreements, and are recorded at the present value of the estimated future benefits to be received when the assets are distributed to the Synod. The valuations of the agreements are initially calculated by the Foundation. The agreements are re-valued annually and any resulting actuarial gain or loss is reflected in the statement of activities as a change in value of split-interest agreements.

Capitalization of Collections

The Synod does not record or capitalize its collections of works of art, historical treasures, and similar assets donated or purchased. These collections are held for public exhibition, education, and research in furtherance of the Synod's public ministry. Management believes the collections are appropriately cared for and preserved and are subject to a policy that generally requires the proceeds from sales of collection items, if any, to be used to acquire other items for the collection.

Revenue Recognition

The Synod recognizes contributions as support when they are received or unconditionally pledged. Amounts pledged are presented as contributions receivable and are stated at the net present value of the amount expected to be collected from outstanding balances. The Synod provides for an estimated uncollectible amount based on historical experience and industry trends.

Notes to Consolidated Financial Statements - Continued

June 30, 2012

Note B - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

The Synod reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

The Synod reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor restrictions about how those long-lived assets must be maintained, the Synod reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

CPS management fee revenue is recognized when plan administration costs are incurred. The billing of these fees to the plans requires management to make certain estimates and assumptions that affect the allocations to each plan.

Tuition and related income for LCMS Holdings, Ltd. are recognized on a straight-line basis over the school year.

Pledges Payable

Pledges authorized and communicated to the recipient but unpaid at year-end are reported as liabilities and are included in support payable to related entities. With the exception of Human Care multi-year grants, all pledges are expected to be paid within one year.

Deferred Revenue

Paid registration fees for future events are deferred at the time the fees are received. Costs associated with these events are considered prepaid expenses until the event has occurred, which are then recognized at that time. Tuition and fees received by the educational institutions of LCMS Holdings, Ltd. are deferred until the start of the academic year, which begins in August.

Notes to Consolidated Financial Statements - Continued

June 30, 2012

Note B - Summary of Significant Accounting Policies (Continued)

Land, Buildings, and Equipment

Land, buildings, improvements, and equipment with a value of at least \$5,000 and having a useful life greater than one year are capitalized and recorded at cost, except for property received by gift, which is recorded at the fair value at date of receipt. Buildings including foreign mission properties (25 to 40 years), improvements (20 years), furniture and fixtures (5 to 8 years), and equipment (3 to 8 years) are depreciated over their estimated useful lives using the straight-line method.

Land use rights are stated at cost less amortization and any impairment losses. Amortization is computed using the straight-line method based on the period over which the rights are granted by the relevant authorities in Shanghai in the People's Republic of China.

Endowments and Permanently Restricted Net Assets

The Board of Directors has interpreted the Missouri enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Synod to appropriate for expenditure or accumulate so much of an endowment fund as determined prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. As a result of this interpretation, the Synod has not changed the way permanently restricted net assets are classified. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the Synod and the endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and the appreciation of investments.
- 6) Other resources of the Synod.
- 7) The investment policies of the Synod.

Notes to Consolidated Financial Statements - Continued

June 30, 2012

Note B - Summary of Significant Accounting Policies (Continued)

Line-of-Credit

The Synod had a \$15.0 million unsecured line-of-credit with LCEF for 2012 and 2011, and as of June 30, 2012 there were no borrowings against this line-of-credit.

Foreign Currency Translation

LCMS Holdings is located in Hong Kong, China, and Vietnam. The functional currencies of these foreign operations are the local currencies. The financial statements of LCMS Holdings subsidiaries have been translated into U.S. dollars. All statement of financial position accounts have been translated using the exchange rate in effect at the statement of financial position dates. Statements of activities amounts have been translated using the average exchange rate for the year. Foreign currency translation adjustments resulted in gains of \$1,127,000 and \$2,580,000 in 2012 and 2011 respectively, and have been reported separately in the consolidated statements of activities.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

Subsequent Events

Management has evaluated events and transactions subsequent to June 30, 2012 through October 22, 2012.

Note C - Investments

Details of investments held by the Synod at June 30, 2012 and 2011 follow:

(In Thousands)	2	<u> 2012</u>		<u>2011</u>
LCEF notes	\$	1,676	\$	1,675
Common trust funds managed by the Foundation:				
Fixed income		6,659		6,224
Equity		9,432		10,228
Conservative balanced		-		284
Moderate balanced		49		51
Money market		497		263
Certificates of deposit–LCMS Holdings, Ltd.		50,929		30,124
Other		-	_	3
Total investments	\$ <u></u>	69,242	\$	48,852

Notes to Consolidated Financial Statements - Continued

June 30, 2012

Note C - Investments (Continued)

The Foundation carries out its investment management services through various common funds to invest the assets entrusted to the Foundation. A common fund pools the assets of numerous smaller accounts to provide for greater diversification and ease of investment management. Holders of a common fund are called participants. The Synod is such a participant. Participants buy and sell units of the common fund asset. In order to determine the price per unit of a common fund, all assets held by the common fund (which can include individual securities or units of other common funds) are valued as of the end of the month (the valuation date). This value is divided by the total number of units held by the participants in the common fund to determine the per-unit value. Transactions in the common fund (either purchases or redemptions) are calculated based on the per-unit value on the valuation date.

During the valuation process, the common fund accrues income and expenses for the valuation period. The net income to the fund is divided by the total number of units held by participants for the valuation period to establish the income per unit factor. Each participant receives an allocation of the net income determined by multiplying the income per unit factor times the number of units held by the participant of the common fund. Net realized and termination gains in Foundation common funds are also calculated and distributed semiannually to the participants.

Note D - Fair Value Measurements

The Synod follows FASB ASC for Fair Value Measurements and Disclosures which establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy used to disclose the measurement of fair value based on levels of observable or unobservable inputs. The FASB ASC describes three levels of inputs that may be used to measure fair value:

- Level 1 Observable inputs that are derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 Quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Notes to Consolidated Financial Statements – Continued June 30, 2012

Note D - Fair Value Measurements (Continued)

Level 3 – Unobservable inputs that are significant and reflect substantial management judgment or estimation, including the use of pricing models, discounted cash flow methodologies or similar techniques.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels. The following tables set forth by level, within the fair value hierarchy, invested assets as of June 30, 2012 and changes in fair value of Level 3 invested assets during the year ended June 30, 2012:

(In Thousands)	Fair Value Measurements								
	(Quoted							
	P	rices in							
	1	Active	Si	gnificant					
	Ma	rkets for		Other	Si	gnificant			
	Ic	lentical	Ob	servable	Unc	bservable			
	A	Assets	-	Inputs		Inputs			
	(I	evel 1)	(I	.evel 2)	(I	Level 3)		Total	
Invested assets									
Foundation investments									
Fixed income	\$	-	\$	6,659	\$	-	\$	6,659	
Equity		-		9,432		-		9,432	
Conservative balanced		-		-		-		-	
Moderate balanced		-		50		-		50	
Money Market		497		-		-		497	
Irrevocable trusts		-		-		3,544		3,544	
Foundation owned									
endowments		-		-		13,432		13,432	
Total Foundation		497		16,141		16,976		33,614	
LCEF investments		671		1,008		-		1,679	
Lutheran Foundation of									
Texas		-		-		353		353	
LCMS Holdings CD's		50,929		-		-		50,929	
Other				-				-	
Total	\$	52,097	\$	17,149	\$	17,329	\$	86,575	

Notes to Consolidated Financial Statements – Continued June 30, 2012

Note D - Fair Value Measurements (Continued)

(In Thousands)	Changes in Level 3 Invested Assets											
				Net	Un	realized						
	В	eginning	Pu	rchases	G	ains &]	Ending				
	E	Balance	& Sales		& Sales		& Sales		(L	osses)	E	Balance
Invested assets												
Irrevocable trusts	\$	3,434	\$	220	\$	(110)	\$	3,544				
Foundation owned												
endowments		12,283		1,016		133		13,432				
Lutheran Foundation of												
Texas		349		_		4		353				
Total	\$	16,066	\$	1,236	\$	27	\$	17,329				

The following tables set forth by level, within the fair value hierarchy, invested assets as of June 30, 2011 and changes in fair value of Level 3 invested assets during the year ended June 30, 2011:

Notes to Consolidated Financial Statements – Continued June 30, 2012

Note D - Fair Value Measurements (Continued)

(In Thousands)	Fair Value Measurements									
, , ,	Quoted									
	P	Prices in								
		Active	Si	gnificant						
	Ma	arkets for		Other	Si	gnificant				
	I	dentical	Ob	servable	Uno	bservable				
		Assets		Inputs]	Inputs				
	(I	Level 1)		Level 2)		evel 3)		Total		
Invested assets		<u> </u>		ŕ		<u> </u>				
Foundation investments										
Fixed income	\$	-	\$	6,224	\$	=	\$	6,224		
Equity		=		10,228		=		10,228		
Conservative balanced		-		284		-		284		
Moderate balanced		=		52		=		52		
Money Market		263		-		-		263		
Irrevocable trusts		-		-		3,434		3,434		
Foundation owned										
endowments		-		-		12,279		12,279		
Total Foundation		263		16,788		15,713		32,764		
LCEF investments		670		1,008		=		1,678		
Lutheran Foundation of										
Texas		-		-		349		349		
LCMS Holdings CD's		30,124		-		-		30,124		
Other		3		-		=		3		
Total	\$	31,060	\$	17,796	\$	16,062	\$	64,918		
						_				
(In Thousands)		Cł	nange	s in Level	3 Inv	ested Ass	ets			
				Net	Ur	realized				
	В	eginning	Pι	ırchases	C	Gains &]	Ending		
	E	Balance	8	z Sales	(I	Losses)	E	Balance		
Invested assets										
Irrevocable trusts	\$	2,809	\$	498	\$	127	\$	3,434		
Foundation owned										
endowments		9,945		1,612		722		12,279		
Lutheran Foundation of										
Texas		399				(50)		349		
Total	\$	13,153	\$	2,110	\$	799	\$	16,062		

Notes to Consolidated Financial Statements – Continued June 30, 2012

Note E - Endowment Investment and Spending Policies

The Synod has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Endowment assets include those assets of donor-restricted funds that the Synod must hold in perpetuity and Board Designated endowments. Under this policy, the endowment assets are invested in a manner intended to balance the total investment return used to fund current operations. These policies act in accordance with Generally Accepted Accounting Principles and applicable laws in the state of Missouri.

All endowment fund investments should be in accordance with the Synod's investment policy and the respective earnings are subject to the endowment spending policy. Endowments containing restrictive investment language will be excluded from the policy and invested in accordance with the donor's directions. Investment returns or earnings consist of interest, dividends, realized and unrealized gains or losses. All permanently restricted endowments will be recorded and maintained at the original value of an endowment gift when the gift was received.

All endowment fund investments will be invested in The Lutheran Church—Missouri Synod Foundation in the following proportions: 40% in either the Standard Fund-Fixed Income or Mortgage Pool Fund, and 60% in the Standard Fund-Equity. The Chief Financial Officer of Synod is responsible for all investments of the Synod and should review the investment allocation periodically, making recommendations for changes if necessary. All new investments will be invested in The Lutheran Church—Missouri Synod Foundation in the latest percentages approved by the Chief Financial Officer.

From time to time the fair value of the assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amount. When endowment values decline, temporarily restricted net assets are reduced up to the fair value of the original gift. Further reductions in the fair value of the endowments result in a reduction of unrestricted net assets. Such deficits result from unfavorable market changes and authorized appropriations and expenditures that are deemed prudent. The annual appropriation for endowment funds with deficits (underwater) are returned to corpus rather than released for spending. Deficits of this nature reported in unrestricted net assets totaled \$0.7 million and \$0.8 million at June 30, 2012 and 2011 respectively. Future appreciation of these endowment values will first be used to restore the values to the original level required.

Notes to Consolidated Financial Statements – Continued June 30, 2012

Note E - Endowment Investment and Spending Policies (Continued)

The changes in and composition of endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

Changes in Endowment Net Assets
June 30, 2012
(In Thousands)

	Unı			Temporarily I Unrestricted Restricted			rarily Permanenetly cted Restricted		Total	
Endowment net assets,										
beginning of year	\$	1,422	\$	1,403	\$	16,254	\$	19,079		
Contributions		-		69		(869)		(800)		
Income earned on										
investments		458		187		1		646		
Unrealized gain/(loss) on										
investments		(440)		(165)		-		(605)		
Appropriation of										
endowment assets for										
expenditure		198		(198)		-		-		
Expenses paid from										
endowments		(198)		-		-		(198)		
Net change in		_								
endowment assets		18		(107)		(868)		(957)		
Endowment net assets,										
end of year	\$	1,440	\$	1,296	\$	15,386	\$	18,122		

Notes to Consolidated Financial Statements – Continued June 30, 2012

Note E - Endowment Investment and Spending Policies (Continued)

Composition of Endowment Net Assets
June 30, 2012
(In Thousands)

		Temporarily		Per	manenetly			
	Unrestricted		Restricted		Restricted		Total	
Donor designated						_		
endowment funds	\$	(793)	\$	1,296	\$	15,386	\$	15,889
Board designated								
endowment funds		2,233		-		-		2,233
Total endowment funds	\$	1,440	\$	1,296	\$	15,386	\$	18,122

Changes in Endowment Net Assets
June 30, 2011
(In Thousands)

			Temporarily		Permanenetly		
	Unr	restricted	Re	stricted	Re	estricted	 Total
Endowment net assets,							
beginning of year	\$	(553)	\$	760	\$	14,946	\$ 15,153
Contributions		11		-		1,233	1,244
Income earned on							
investments		316		103		_	419
Unrealized gain/(loss) on							
investments		1,648		631		75	2,354
Appropriation of							
endowment assets for							
expenditure		91		(91)		-	-
Expenses paid from							
endowments		(91)		-		-	 (91)
Net change in							
endowment assets		1,975		643		1,308	3,926
Endowment net assets,							
end of year	\$	1,422	\$	1,403	\$	16,254	\$ 19,079

Notes to Consolidated Financial Statements – Continued June 30, 2012

Note E - Endowment Investment and Spending Policies (Continued)

Composition of Endowment Net Assets
June 30, 2011
(In Thousands)

		Temporarily		Permanenetly				
	Unrestricted		Restricted		Restricted		Total	
Donor designated								
endowment funds	\$	(804)	\$	1,403	\$	16,254	\$	16,853
Board designated								
endowment funds		2,226		-		-		2,226
Total endowment funds	\$	1,422	\$	1,403	\$	16,254	\$	19,079

Note F - Contributions Receivable - Net

At June 30, 2012 and 2011, contributors had promised to give the Synod \$26,801,000 and \$29,383,000, respectively. Irrevocable deferred gifts are those which the Synod is the beneficiary and will receive the principal at some future date. Management believes total contributions will be received as follows:

(In Thousands)	June 30, 2012					
		Irrevocable		_		
	Deferred Fan into					
	District	Gifts Held at	Flame			
	Pledges	Foundation	& Other	Total		
Amount due:						
Within one year \$	10,165	\$ 129	\$ 8,331	\$ 18,625		
One to five years	-	653	2,605	3,258		
More than five years		4,885	33	4,918		
	10,165	5,667	10,969	26,801		
Less present value component	-	(2,123)	(200)	(2,323)		
Less allowance for doubtful						
contributions	<u>(500</u>)		(3,800)	(4,300)		
Total \$	9,665	\$ <u>3,544</u>	\$ <u>6,969</u>	\$ 20,178		

Notes to Consolidated Financial Statements – Continued June 30, 2012

Note F - Contributions Receivable - Net (Continued)

(In Thousands)	June 30, 2011							
			In	revocable				
		Deferred Fan into						
		District	Gi	fts Held at		Flame		
		<u>Pledges</u>	Fo	<u>oundation</u>		& Other		<u>Total</u>
Amount due:								
Within one year	\$	10,495	\$	27	\$	8,577	\$	19,099
One to five years		-		468		4,470		4,938
More than five years	_			5,226	_	120	_	5,346
		10,495		5,721		13,167		29,383
Less present value component		-		(2,286)		(400)		(2,686)
Less allowance for doubtful								
contributions	_	(500)			_	(2,200)	_	(2,700)
Total	\$_	9,995	\$	3,435	\$_	10,567	\$	23,997

Assumptions utilized in calculating the present value of irrevocable deferred gifts at June 30 are as follows:

	<u>2012</u>	<u>2011</u>
Growth rates	0% to 6.6%	0% to 6.7%
Discount rate	4.1%	4.1%
Distribution rate	7.0%	7.0%

Notes to Consolidated Financial Statements – Continued

June 30, 2012

Note G - Land, Buildings and Equipment

Land, buildings and equipment consisted of the following:

(In Thousands)	<u>2012</u>	<u>2011</u>
International Center (62.32% ownership): Land and land improvements Building and improvements	\$ 842 	\$ 842
Furniture and fixtures	11,839 3,372 11,632	11,893 3,302 12,339
Equipment Foreign mission properties Work in progress	11,632 6,284 1	6,284 104
LCMS Holdings, Ltd.: Land use rights	7,568	7,623
Property, plant and equipment Total land, buildings and equipment Less accumulated depreciation	50,370 91,066 (36,861)	47,818 89,363 (32,804)
Total Synod	\$ <u>54,205</u>	\$ <u>56,559</u>

The International Center is jointly owned by the Synod (62.32%), LCMS Foundation (12.68%) and Concordia Plans (25%).

The Synod's foreign mission properties represent property used in support of Synod administration and staff.

Note H - Funds Held in Custody by Others

The Synod is the beneficiary of the earnings on irrevocable trusts and various endowment funds held by the Foundation. The Synod will receive the earnings in perpetuity. The principal will not revert to the Synod. The perpetual stream of revenue is viewed by the Synod as promises to give by the individuals who established the trusts and endowments and has been recorded at the fair value of the trusts at June 30, 2012 and 2011, which closely approximates the net present value of the revenue stream in perpetuity.

Given the nature of the promises, the Synod has recorded these contributions as permanently restricted net assets. Revenue received is recorded as either unrestricted or temporarily restricted activity based upon the presence or absence of donor restrictions. Increases or decreases in the fair value of the trust assets are recorded as changes in permanently restricted net assets in the consolidated statements of activities and changes in net assets.

Notes to Consolidated Financial Statements – Continued

June 30, 2012

Note I - Support Payable to Synod-Related Entities

Support payable to Synod-related entities represents support the Synod has committed to pay the following entities:

	June 30					
(In Thousands)	<u>2012</u>		<u>2011</u>			
CUS and seminaries	\$	4,704	\$	5,404		
CHI		460		430		
Human Care multi-year grants		2,091		2,880		
Total	\$	7,255	\$	8,714		

Note J - Note Payable

Effective July 1, 2005, the Retirement, Disability, and Health trusts sold certain fixed assets consisting of hardware, software, furniture and equipment to Concordia Plan Services at the net book value of \$3,004,000.

Future minimum payments based upon the current principal balance are as follows:

(In Thousands)	Year Ending			
	June 30			
2013	\$	339		
2014		199		
2015		50		
2016		6		
2017		2		
		596		
Less amount representing interest		15		
Total principal payments	\$	581		

Notes to Consolidated Financial Statements – Continued June 30, 2012

Note K - Board Designated Net Assets

The Board of Directors has designated unrestricted net assets for the following purposes:

(In Thousands)	2012	2011
Youth Gathering	\$ 194	\$ 189
DCS Ministries Endowment Fund	35	35
Mission Property Fund	280	722
Risk Endowment	2,003	2,002
KFUO-FM Sale Proceeds	1,276	250
LCMS Housing Corporation Housing Loans	594	594
Total Board designated net assets	\$ 4,382	\$ 3,792

Note L - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30					
(In Thousands)	<u>2012</u>			<u> 2011</u>		
Program restrictions:						
Program boards:						
Missions	\$	9,015	\$	6,741		
Fan into Flame		4,825		9,748		
Pastoral Education		694		755		
District and Congregational Services		1,127		1,364		
Communications		164		47		
Human Care		8,521		7,959		
Black Ministry		43		66		
Total program boards		24,389		26,680		
KFUO radio		895		308		
Ecclesiastical services and commissions		454		223		
Synodical constitutional officers and administration		423		457		
General and administrative		818	_	304		
Total program restrictions		26,979		27,972		

Notes to Consolidated Financial Statements – Continued

<u>June</u> 30, 2012

Note L - Temporarily Restricted Net Assets (Continued)

Time restrictions:		
Pledges	4,547	3,591
Irrevocable trusts	3,544	3,434
Term endowments	483	413
Total time restrictions	8,574	7,438
Total temporarily restricted net assets	\$ <u>35,553</u>	\$ <u>35,410</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Temporarily restricted net assets were released for the following specific purposes:

	June 30				
(In Thousands)		<u> 2012</u>		<u>2011</u>	
Program restrictions:					
Program boards:					
Missions	\$	20,185	\$	18,895	
Fan into Flame		541		2,603	
Pastoral and University Education		2,448		2,261	
District and Congregational Services		684		544	
Communications		109		166	
Human Care		11,140		12,249	
Black Ministry	_	65	_	189	
Total program boards		35,172		36,907	
KFUO radio		1,315		1,538	
Supplemental retirement to veterans of the cross		466		453	
Ecclesiastical services and commissions		159		243	
Synodical constitutional officers and administration		75		92	
General and administrative		(1,092)		728	
Fund losses of underwater endowments	_	11		1,603	
Total program restrictions		36,106		41,564	
Expiration of time restrictions:					
Pledges	_	15,569	_	17,039	
Total time restrictions	_	15,569	_	17,039	
Total restrictions released	\$ <u></u>	51,675	\$_	58,603	

Notes to Consolidated Financial Statements – Continued

June 30, 2012

Note M- Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The income from these investments will be used to support various Synod programs:

	June 30						
(In Thousands)	<u>2012</u>	<u>2011</u>					
Program boards:							
Missions	\$ 15,054	\$ 15,649					
Fan into Flame	93	93					
Pastoral Education	3,569	3,555					
District and Congregational Services	409	384					
Human Care	5,473	5,102					
Total program boards	24,598	24,783					
KFUO radio	841	709					
Unrestricted	3,032	3,019					
Other	361	357					
Total permanently restricted net assets	\$ <u>28,832</u>	\$ 28,868					

Note N - Contributed Services

The Synod received donated professional services for its overseas mission work as transcribers, teachers, volunteer coordinators, and relief workers. The Synod had approximately 90 and 75 professional full-time and part-time volunteer workers for the years ended June 30, 2012 and 2011 respectively. Support arising from these contributed services has been recognized in the consolidated financial statements at the estimated fair value of the services received totaling \$2,221,000 and \$1,851,000 for the years ended June 30, 2012 and 2011, respectively.

In addition, a substantial number of unpaid volunteers made significant contributions of their time to LCMS World Relief, Youth Gathering, and other programs. The value of this service has not been reflected in the consolidated financial statements since it is not susceptible to objective measurement or valuation.

Notes to Consolidated Financial Statements – Continued

June 30, 2012

Note O - Fundraising Costs

Fundraising costs are reported as expenses within the program to which they relate as follows:

		e 30			
(In Thousands)	<u> </u>	<u> 2012</u>	4	<u> 2011</u>	
Program boards:					
Missions	\$	2,460	\$	2,236	
Fan into Flame		563		1,509	
Pastoral Education		484		582	
Human Care		1,541		1,606	
Total program boards		5,048		5,933	
KFUO radio	_	141		218	
Total fundraising costs	\$ <u></u>	<u>5,189</u>	\$	6,151	

Note P - Pension Expense

The Synod participates in the Concordia Plans (the Plans). The Plans are administered by the Board of Trustees of the Plans/Board of Directors of CPS, whose members are appointed by the Synod. The Plans are the Concordia Retirement Plan, the Concordia Health Plan, the Concordia Disability and Survivor Plan, the Concordia Retirement Savings Plan, and the Pension Plan for Pastors and Teachers, each of which is a separate trust operated under trust laws. The assets and liabilities of the respective Plans are separate and distinct from those of the Synod and cannot be used to satisfy the liabilities and obligations of the Synod. Substantially all full-time employees are covered by the retirement and disability plans. The Synod contributes a fixed percentage of each participant's salary to the retirement plans. Retirement and disability plan expense for the years ended June 30, 2012 and 2011 was \$1,871,000 and \$2,222,000, respectively.

In addition to basic benefits provided by the Pension Plan for Pastors and Teachers, the Synod has funded supplementary payments of \$504,000 and \$663,000 in 2012 and 2011, respectively, to provide minimum pension amounts to all retirees.

Notes to Consolidated Financial Statements – Continued

June 30, 2012

Note Q - Guarantees of Indebtedness of Others

To assist related entities (primarily CUS and individual colleges) in obtaining favorable financing terms, the Synod has guaranteed the repayment of certain borrowings. In the event of a default declared by the lending institution, the Synod is obligated to perform under the guarantee agreement. The maximum future payments that could be required are disclosed below. CUS and the individual colleges plan to repay the loans from fund drives, operations of the institutions, and donated restricted net assets.

Total outstanding guarantees were as follows:

	Ju	ne 30
(In Thousands)	<u>2012</u>	<u>2011</u>
LCEF	\$ 26,784	\$ 19,548
Tax-exempt public financings:		
Concordia University – Irvine	22,870	23,220
Total loan guarantees	\$ <u>49,654</u>	\$ <u>52,768</u>

The guarantees to LCEF include a restructuring loan entered into in 2001 and a line of credit issued to CUS which the Synod has guaranteed a maximum of \$10 million. The interest rate on the restructuring loan is variable and was 4.5% at June 30, 2012 and 4.75% at June 30, 2011, maturing on June 29, 2021. The line of credit interest rate is also variable and was 4.5% at June 30, 2012 and 5.0% at June 30, 2011, maturing on June 23, 2013.

The guarantees on the tax-exempt public financings at June 30, 2011 were entered into during the fiscal years ended June 30, 2002 and 2001. These guarantee agreements were revised as of December 1, 2011. The interest rates on these loans are variable and ranged from 3.64% to 4.95% at June 30, 2012 and June 30, 2011. These financings and the related guarantees mature October 1, 2015 and 2031.

The guarantee on the tax-exempt public financing contains a restrictive financial covenant regarding a debt service coverage ratio.

These guarantee used to obtain tax-exempt financings and guarantees to LCEF are unsecured. The Synod does, however, retain a reversionary interest in the underlying properties granted by the respective educational institutions or through the bylaws of the Synod.

Notes to Consolidated Financial Statements - Continued

June 30, 2012

Note R - Contingencies

The Synod is involved in litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on the Synod's financial position or change in net assets.

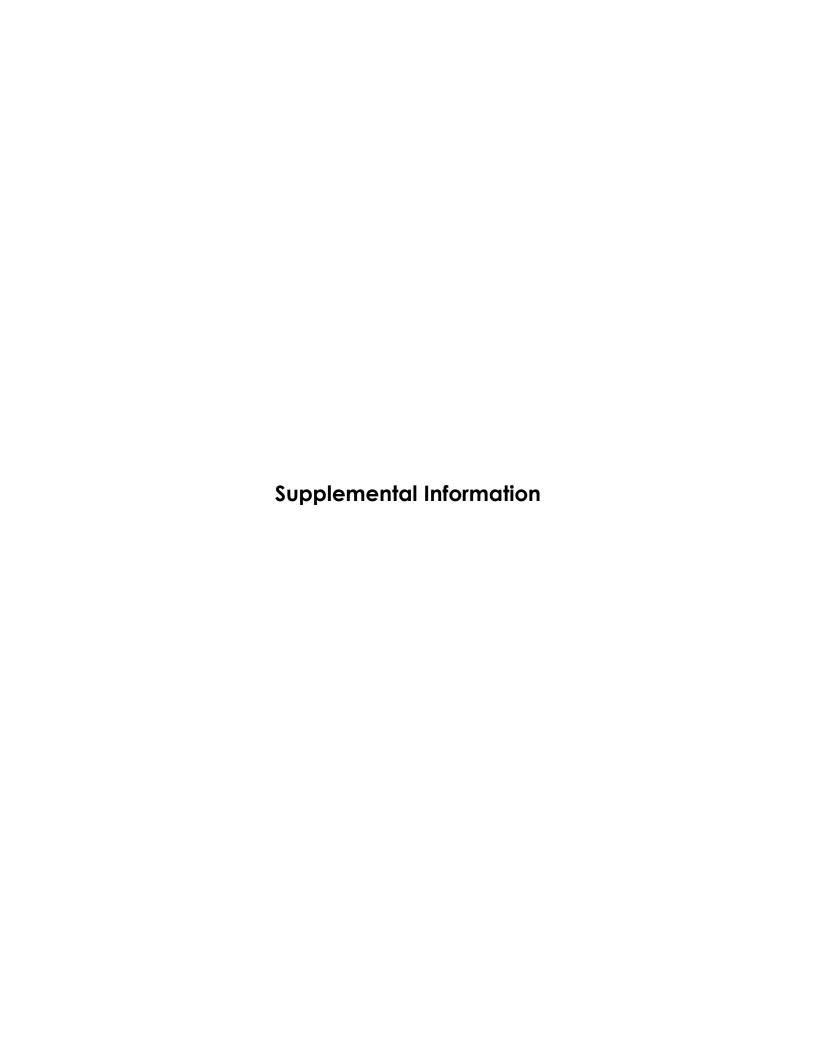
Note S - Taxes

For LCMS Holdings Ltd., no provision has been made for Hong Kong profits tax as the company did not earn any income which is subject to Hong Kong profits tax. Taxation of CISS is calculated at rates prevailing in the People's Republic of China ("PRC"), based on existing legislation, interpretations and local practices. CISS tax expense was \$2,350,521 and \$2,564,495 for 2012 and 2011, respectively. No provision for deferred tax has been made as there are no temporary differences between the carrying amounts of assets and liabilities in Holdings' consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

The Synod adopted recently issued accounting rules for uncertain tax positions. Those rules require financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. These rules also provide guidance on measurement, recognition, classification, interest and penalties, transition, and disclosure requirements for uncertain tax positions. The adoption of the new rules has no impact on the current consolidated financial statements.

Note T - Sale of KFUO-FM License

On July 6, 2010, the Synod entered into an asset purchase agreement to sell the KFUO-FM radio broadcast license. The Synod has elected to account for the sale on the installment basis and defer recognition of the gain until payments are received under the purchase agreement. At June 30, 2012, the balance receivable under the agreement and deferred gain on sale was \$15.0 million.





Independent Auditors' Report on Supplemental Information

Board of Directors The Lutheran Church—Missouri Synod St. Louis, Missouri

We have audited the consolidated financial statements of The Lutheran Church–Missouri Synod and Subsidiaries as of and for the year ended June 30, 2012 and 2011, and have issued our report thereon dated October 22, 2012, which contained an unqualified opinion on those consolidated financial statements as a whole. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position, activities, and cash flows is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The supplemental information on page 42 is for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we express no opinion on it.

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St. Louis, Missouri October 22, 2012

Consolidating Statement of Financial Position

June 30, 2012

(In Thousands)	Synod	CPS	LCMS Holdings	Eliminations	2012
ASSETS	Syllod	CIB	Holdings	Lillimations	2012
Cash and cash equivalents	\$ 9,710	\$ 9,904	\$ 7,789	\$ -	\$ 27,403
Accrued interest and dividends receivable	1,274	-		-	1,274
Contributions receivable – net	20,178	_	_	_	20,178
Notes and accounts receivable:	20,170				20,170
From church workers	554	2	_	_	556
From Synod-related entities	8,582	_	_	(8,108)	474
From others	16,364	3,818	2,774	(0,100)	22,956
Total notes and accounts receivable	25,500	3,820	2,774	(8,108)	23,986
Land, buildings, and equipment – net of depreciation	12,111	655	41,439	_	54,205
Investments	18,313	033	50,929	_	69,242
Funds held in custody by others	13,789	_	30,929	_	13,789
Prepaid expenses – insurance	257	-	-	-	257
Prepaid expenses – Insurance Prepaid expenses – Convention and Youth Gathering	823	-	-	-	823
Other assets	1,323	270	-	-	1,593
			-		
TOTAL ASSETS	\$103,278	\$ 14,649	\$102,931	\$ (8,108)	\$ 212,750
LIABILITIES AND NET ASSETS Liabilities					
Accounts payable and accrued expenses	\$ 5,102	\$ 3,814	\$ 3,337	\$ (220)	\$ 12,033
Support payable to related entities	7,255	-	-	-	7,255
Funds on deposit by related entities	2,630	-	-	-	2,630
Notes payable	-	581	1,200	(1,200)	581
Deferred revenue:					
Insurance	231	-	-	-	231
Convention and Youth Gathering	13	-	-	-	13
Tuition and fees	-	-	27,400	-	27,400
Other	15,000	-	-	-	15,000
Total deferred revenue	15,244	-	27,400	-	42,644
Advance payments on third-party billings	-	9,981	-	-	9,981
Other liabilities	110	-	10,206	(6,688)	3,628
Funds held in custody for others	1,122	-	-	-	1,122
Total liabilities	31,463	14,376	42,143	(8,108)	79,874
Net assets Unrestricted:					
Undesignated	(9,063)	199	19,349	-	10,485
Board Designated	4,382	-	-	-	4,382
Net investment in land, buildings and equipment	12,111	74	41,439		53,624
Total unrestricted	7,430	273	60,788		68,491
Temporarily restricted	35,553	-	-	-	35,553
Permanently restricted	28,832	-	_	-	28,832
Total net assets	71,815	273	60,788	_	132,876
TOTAL LIABILITIES AND NET ASSETS	\$103,278	\$ 14,649	\$102,931	\$ (8,108)	\$ 212,750
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Consolidating Statement of Activities – Unrestricted

Year Ended June 30, 2012

(In Thousands)		Synod	LCMS CPS Holdings			Eliminations			Total
Support, revenues, and gains									
Support:									
District pledge	\$	-	\$ -	\$	-	\$	-	\$	-
Gifts and grants		619	-		-		-		619
Bequests		1,949	-		-		-		1,949
Volunteer services		-	-		-		-		-
Total support		2,568	-		-		-		2,568
Revenues:									
Investment and trust income		1,237	-		-		(14)		1,223
Sales and services:									
Convention and Youth Gathering		-	-		-		-		-
KFUO-FM		-	-		-		-		-
Other programs and services		5,618	-		-		-		5,618
Services to other entities		2,525	-		-		(916)		1,609
Concordia Plan Services		-	19,709		-		-		19,709
LCMS Holdings Limited-tuition and other		-	-		40,881		(189)		40,692
Total revenues	<u> </u>	9,380	19,709		40,881		(1,119)		68,851
Net realized & unrealized gain/(loss) on investments		(370)	-		_		-		(370)
Change in value of split-interest agreements		-	-		-		-		-
Gain on sale of assets		1,504	-		-		-		1,504
Net assets released from restrictions		51,675	-		-		-		51,675
Total support, revenues, and gains		64,757	19,709		40,881		(1,119)]	124,228

Consolidating Statement of Activities - Unrestricted - Continued

Year Ended June 30, 2012

(In Thousands)	LCMS				
	Synod	CPS	Holdings	Eliminations	Total
Expenses					
Programs:					
Missions	23,122	-	-	(95)	23,027
Fan into Flame	633	-	-	(70)	563
Pastoral Education	3,416	-	-	-	3,416
University Education	4,061	-	-	-	4,061
District and Congregational Services	1,722	-	-	-	1,722
Youth Gathering	-	-	-	-	-
Communications	1,985	-	-	-	1,985
Human Care	11,169	-	-	-	11,169
Black Ministry	316	-	-	-	316
Total program services	46,424	-	-	(165)	46,259
KFUO	1,443	-	-	-	1,443
Convention initiatives and constitutional officers:					
Supplemental retirement to veterans of the cross	504	-	-	-	504
Ecclesiastical services and commissions	1,964	-	-	-	1,964
Synodical constitutional officers and administration	3,721	-	-	-	3,721
Total convention initiatives and constitutional officers	6,189	-	-	-	6,189
General and administrative	9,973	-	-	(24)	9,949
Concordia Plan Services	-	19,651	-	(916)	18,735
LCMS Holdings Limited	-	-	37,142	(14)	37,128
Total expenses	64,029	19,651	37,142	(1,119)	119,703
Foreign currency translation		-	1,127	-	1,127
Change in net assets	728	58	4,866	-	5,652
Net assets at beginning of year	6,702	215	55,922	-	62,839
Net assets at end of year	\$ 7,430	\$ 273	\$ 60,788	\$ -	\$ 68,491

Consolidating Statement of Cash Flows

Year Ended June 30, 2012

(In Thousands)	Synod	CPS	LCMS Holdings	Eliminations	2012
Cash flows from operating activities:	Bynou	CIB	Holdings	Lillilliations	2012
Change in net assets	\$ 835	\$ 58	\$ 4,866	\$ -	\$ 5,759
Adjustments to reconcile change in net assets to net cash provided			. ,		. ,
by operating activities:					
Depreciation and amortization	1,107	347	4,174	_	5,628
Allowance adjustment for uncollectible pledges	1,630	-	-	_	1,630
Loss on investments	607	-	-	_	607
Gain on value of split-interest agreements	(297)	-	-	-	(297)
Changes in operating assets and liabilities:					
Increase in accrued interest receivable	(290)	-	-	-	(290)
Decrease in contributions receivable	2,079	-	-	-	2,079
(Increase) decrease in accounts receivable	1,273	(86)	93	1,576	2,856
(Increase) decrease in prepaid expenses and other assets	922	(5)	-	-	917
Increase in funds held in custody by others	(750)	-	-	-	(750)
Increase (decrease) in accounts payable and accrued expenses	536	299	1,003	(19)	1,819
Decrease in support payable to related entities	(1,459)	-	-	-	(1,459)
Decrease in deferred revenues and other liabilities	(4,202)	-	(440)	-	(4,642)
Increase in advance payments for third-party billings	-	(1,001)	-	_	(1,001)
Increase in funds held in custody for others	182	-	-	_	182
Contributions restricted for long-term investment	189	-	-	-	189
Net cash provided by (used in) operating activities	2,362	(388)	9,696	1,557	13,227
Cash flows from investing activities:					
Purchases of property, plant, and equipment	(231)	(491)	(1,748)	-	(2,470)
Disposal of property, plant, and equipment	1	-	11	-	12
Purchases of investments	(958)	-	(20,281)	-	(21,239)
Proceeds from sale of investments	766	-	-	-	766
Additions to notes receivable	(94)	-	-	-	(94)
Principal collections on notes receivable	203	-	-	_	203
Net cash used in investing activities	(313)	(491)	(22,018)	-	(22,822)
Cash flows from financing activities:					
Decrease in funds on deposit by related entities	(1,540)	-	-	_	(1,540)
Increase in notes payable	-	418	1,557	(1,557)	418
Payments on notes payable	-	(326)	-	-	(326)
Contributions restricted for long-term investment	(189)	-	-	-	(189)
Net cash provided by (used in) financing activities	(1,729)	92	1,557	(1,557)	(1,637)
Effect of exchange rate changes		-	(743)	-	(743)
Net increase (decrease) in cash and cash equivalents	320	(787)	(11,508)	-	(11,975)
Cash and cash equivalents at beginning of year	9,390	10,691	19,297	_	39,378
Cash and cash equivalents at end of year	\$ 9,710	\$ 9,904	\$ 7,789	\$ -	\$ 27,403
Supplemental cash flow data:					
Interest paid	\$ 132	\$ 20	\$ -	\$ -	\$ 152
Taxes paid	\$ -	\$ -	\$ 2,351	\$ -	\$ 2,351
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Consolidating Statement of Financial Position

June 30, 2011

(In Thousands)	Synod	CPS	LCMS Holdings	Eliminations	2011
ASSETS					
Cash and cash equivalents	\$ 9,390	\$ 10,691	\$ 19,297	\$ -	\$ 39,378
Accrued interest and dividends receivable	984	-	-	-	984
Contributions receivable – net	23,997	-	-	-	23,997
Notes and accounts receivable:					
From church workers	655	-	-	-	655
From Synod-related entities	9,392	-	-	(6,331)	3,061
From others	16,835	3,734	2,853	-	23,422
Total notes and accounts receivable	26,882	3,734	2,853	(6,331)	27,138
Land, buildings, and equipment – net of depreciation	12,988	511	43,060	-	56,559
Investments	18,728	-	30,124	-	48,852
Funds held in custody by others	12,632	-	-	-	12,632
Prepaid expenses – insurance	1,910	-	-	-	1,910
Prepaid expenses – Convention and Youth Gathering	-	-	-	-	-
Other assets	1,415	264	-	-	1,679
TOTAL ASSETS	\$108,926	\$ 15,200	\$ 95,334	\$ (6,331)	\$ 213,129
LIABILITIES AND NET ASSETS Liabilities					
Accounts payable and accrued expenses	\$ 4,566	\$ 3,514	\$ 2,300	\$ -	\$ 10,380
Support payable to related entities	8,714	-	-	-	8,714
Funds on deposit by related entities	4,170	-	-	-	4,170
Notes payable	-	489	-	-	489
Deferred revenue:					
Insurance	2,586	-	-	-	2,586
Convention and Youth Gathering	-	-	-	-	-
Tuition and fees	-	-	26,972	-	26,972
Other	16,500	-	-	-	16,500
Total deferred revenue	19,086	-	26,972	-	46,058
Advance payments on third-party billings		10,982	-	-	10,982
Other liabilities	470	-	10,140	(6,331)	4,279
Funds held in custody for others	940	-	-	-	940
Total liabilities	37,946	14,985	39,412	(6,331)	86,012
Net assets Unrestricted:					
Undesignated	(10,078)	193	12,862	_	2,977
Board Designated	3,792	-	-	_	3,792
Net investment in land, buildings and equipment	12,988	22	43,060		56,070
Total unrestricted	6,702	215	55,922	-	62,839
Temporarily restricted	35,410	-	-	-	35,410
Permanently restricted	28,868				28,868
Total net assets	70,980	215	55,922	-	127,117
TOTAL LIABILITIES AND NET ASSETS	\$108,926	\$ 15,200	\$ 95,334	\$ (6,331)	\$ 213,129

Consolidating Statement of Activities – Unrestricted

Year Ended June 30, 2011

(In Thousands)	 LCMS Synod CPS Holdings Eliminations					s Eliminations			Γotal
Support, revenues, and gains									
Support:									
District pledge	\$ =.	\$	-	\$	-	\$	-	\$	-
Gifts and grants	459		-		-		-		459
Bequests	2,989		-		-		-		2,989
Volunteer services	 -		-		-		-		-
Total support	3,448		-		-		-		3,448
Revenues:									
Investment and trust income	1,120		-		-		-		1,120
Sales and services:									
Convention and Youth Gathering	8,828		-		-		-		8,828
KFUO-FM	15		-		-		-		15
Other programs and services	6,360		-		-		-		6,360
Services to other entities	2,563		-		-		(926)		1,637
Concordia Plan Services	_		15,731		_		-		15,731
LCMS Holdings Limited-tuition and other	-		-		36,973		(137)		36,836
Total revenues	18,886		15,731		36,973		(1,063)		70,527
Net realized & unrealized gain on investments	308		-		-		-		308
Change in value of split-interest agreements	-		-		-		-		-
Gain on sale of assets	1,501		-		-		-		1,501
Net assets released from restrictions	 58,603		-				-		58,603
Total support, revenues, and gains	 82,746		15,731		36,973		(1,063)	1	134,387

Consolidating Statement of Activities - Unrestricted - Continued

Year Ended June 30, 2011

(In Thousands)	LCMS				
	Synod	CPS	Holdings	Eliminations	Total
Expenses					
Program boards:					
Missions	23,485	-	-	(95)	23,390
Fan into Flame	1,509	-	-	-	1,509
Pastoral Education	3,509	-	-	-	3,509
University Education	4,852	-	-	_	4,852
District and Congregational Services	1,826	-	-	_	1,826
Youth Gathering	7,016	-	-	_	7,016
Communications	1,916	-	-	_	1,916
Human Care	12,279	-	-	-	12,279
Black Ministry	657	-	-	-	657
Total program services	57,049	-	-	(95)	56,954
KFUO	2,162	-	-	-	2,162
Convention initiatives and constitutional officers:					
Supplemental retirement to veterans of the cross	663	-	-	-	663
Ecclesiastical services and commissions	2,412	-	-	_	2,412
Synodical constitutional officers and administration	5,618	-	-	-	5,618
Total convention initiatives and constitutional officers	8,693	-	-	-	8,693
General and administrative	11,124	-	-	(77)	11,047
Concordia Plan Services	-	15,745	-	(926)	14,819
LCMS Holdings Limited	-	-	29,580	-	29,580
Total expenses	79,028	15,745	29,580	(1,098)	123,255
Foreign currency translation	-	-	2,580	-	2,580
Change in net assets	3,718	(14)	9,973	35	13,712
Net assets at beginning of year	2,984	229	45,949	(35)	49,127
Net assets at end of year	\$ 6,702	\$ 215	\$ 55,922	\$ -	\$ 62,839

Consolidating Statement of Cash Flows

Year Ended June 30, 2011

(In Thousands)	Synod	CPS	LCMS Holdings	Eliminations	2011
Cash flows from operating activities:					
Change in net assets	\$ 4,178	\$ (14)	\$ 9,973	\$ 35	\$ 14,172
Adjustments to reconcile change in net assets to net cash provided					
by (used in) operating activities:					
Depreciation and amortization	1,130	324	3,865	-	5,319
Allowance adjustment for uncollectible pledges	514	-	-	-	514
Gain on investments	(2,279)	-	-	-	(2,279)
Gain on value of split interest agreements	(798)	-	-	-	(798)
Changes in operating assets and liabilities:					
Increase in accrued interest receivable	(761)	-	-	-	(761)
Decrease in contributions receivable	5,081	-	-	-	5,081
(Increase) decrease in accounts receivable	(20,290)	(892)	(2,279)	2,263	(21,198)
(Increase) decrease in prepaid expenses and other assets	4,442	(27)		-	4,415
Increase in funds held in custody by others	(1,612)	-	-	-	(1,612)
Increase (decrease) in accounts payable and accrued expenses	(1,003)	836	(1,614)	-	(1,781)
Increase in support payable to related entities	9	-	-	-	9
Increase in deferred revenues and other liabilities	8,744	-	2,440	-	11,184
Increase in advance payments for third-party billings	-	(975)	-	-	(975)
Decrease in funds held in custody for others	(30)	-	-	-	(30)
Contributions restricted for long-term investment	(2,845)	-	-	-	(2,845)
Net cash provided by (used in) operating activities	(5,520)	(748)	12,385	2,298	8,415
Cash flows from investing activities:					
Purchases of property, plant, and equipment	(836)	(411)	(1,045)	-	(2,292)
Disposal of property, plant, and equipment	24	-	11	-	35
Purchases of investments	(1,809)	-	(21,084)	-	(22,893)
Proceeds from sale of investments	308	-	-	-	308
Additions to notes receivable	(177)	-	-	-	(177)
Principal collections on notes receivable	229	-	-	-	229
Net cash used in investing activities	(2,261)	(411)	(22,118)	-	(24,790)
Cash flows from financing activities:					
Decrease in funds on deposit by related entities	(891)	-	-	-	(891)
Increase in notes payable	-	402	2,263	(2,263)	402
Payments on notes payable	-	(324)	-	-	(324)
Contributions restricted for long-term investment	2,845	-	-	-	2,845
Net cash provided by (used in) financing activities	1,954	78	2,263	(2,263)	2,032
Effect of exchange rate changes		-	(1,437)	-	(1,437)
Net increase (decrease) in cash and cash equivalents	(5,827)	(1,081)	(8,907)	35	(15,780)
Cash and cash equivalents at beginning of year	15,217	11,772	28,204	(35)	55,158
Cash and cash equivalents at end of year	\$ 9,390	\$10,691	\$19,297	\$ -	\$ 39,378
Supplemental cash flow data:					
Interest paid	\$ 102	\$ 6	\$ -	\$ -	\$ 108
Taxes paid	\$ -	\$ -	\$ 2,564	\$ -	\$ 2,564
Tures paid	Ψ	Ψ	Ψ 2,207	Ψ	Ψ 2,507

Consolidated Statement of Expenses by Function Year Ended June 30, 2012

(In Thousands)	T 1		Consta		T 1		Б 1		04		Tr. e 1		
Expenses	Labor			Grants		Travel		Fundraising		Other		Total	
Program boards:													
Missions	\$	9,836	\$	8,347	\$	455	\$	2,460	\$	1,929	•	23,027	
Fan Into Flame fundraising costs	Ψ	-,050	Ψ	-	Ψ	-	Ψ	563	Ψ	-	Ψ	563	
Pastoral Education		223		2,429		65		484		215		3,416	
University Education		-		4,061		-		-				4,061	
District and Congregational Services		902		16		378		_		426		1,722	
Youth Gathering		-		-		-		_		-		-	
Communications		1,345		_		39		_		601		1,985	
Human Care Ministries		1,735		6,160		492		1,541		1,241		11,169	
Black Ministry		123		61		45		-		87		316	
•													
Total program services		14,164		21,074		1,474		5,048		4,499		46,259	
KFUO		783		-		3		141		516		1,443	
Convention initiatives and													
constitutional officers:													
Supplemental retirement to													
veterans of the cross		53		451		_		-		_		504	
Ecclesiastical services and													
commissions		1,043		-		333		-		588		1,964	
Synodical constitutional officers &		,										, -	
administration		2,139		460		445		-		677		3,721	
Total convention initiatives and				<u>_</u>						<u></u>			
constitutional officers		3,235		911		778		-		1,265		6,189	
		,								,			
General and administrative		6,684		-		99		-		3,166		9,949	
Total Corporate Synod		24,866		21,985		2,354		5,189		9,446		63,840	
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Concordia Plan Services		10,904		-		441		-		7,390		18,735	
LCMS Holdings		22,464		-		-		-		14,664		37,128	
Total expenses	\$	58,234	\$	21,985	\$	2,795	\$	10,378	\$	31,500	\$	119,703	
•	_		_		_		_	_			_		